

# Broadening the Benefits of Trade: The Latin American Trade Network



The Latin America Trade Network (LATN) has brought together researchers and policymakers to help Latin American countries respond to the ongoing changes in international trade relations. (IDRC Photo: David Barbour)

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*Kevin Conway*

Limit the threats and maximize the opportunities — it's the mantra of trade negotiators the world over. For the strategy to work, however, negotiators and their governments must be able to distinguish a promising option from a potential pitfall — and there's the rub. Many Latin American countries lack the technical expertise and resources needed to analyze trade issues and develop good negotiating approaches. Consequently, Latin American negotiators often find themselves in trade talks defending their "national interests" without knowing the full implications of the commitments under discussion.

"In effect, we are gambling with our country's future every day at the negotiating table," says Luis Abugattas, the Executive Director of the Institute of Economic and Social Studies at the Sociedad Nacional de Industrias in Lima, Peru. And he should know. Mr Abugattas was an advisor to the Peruvian government during the Uruguay Round of trade negotiations and was in charge of Peru's international commercial negotiations when the Andean Pact — the trade agreement that links Bolivia, Colombia, Ecuador, Peru, and Venezuela — was created.

## Research to help trade negotiators

"In the industrialized countries," says Mr Abugattas, "there are hundreds of think tanks producing policy papers that are analyzed by the authorities and then used as inputs for negotiating positions. In my own country, Peru, there is no university or think tank doing this kind of research."

To try to fill this information vacuum, Canada's International Development Research Centre (IDRC) helped create the Latin America Trade Network (LATN). Mr Abugattas was among the 12 researchers and policy officials the network brought together in 1998 to help Latin American countries respond to the ongoing changes in international trade relations. Today, the network boasts an alumni of 30 and a reach that stretches beyond the borders of Latin America.

One of the keys to LATN's success has been its ability to meet the needs of the region's decision-makers, says its Deputy Director, Miguel Lengyel. "We try to be completely demand-driven and we emphasize research that can provide useful policy inputs."

### **Benefits to government and local industry**

This emphasis on practical, policy relevant research has found favour with national governments and local industries. For example:

- the industry and trade ministries in Argentina and Peru drew on LATN research to examine new policies on subsidies and dispute resolution mechanisms;
- textile, furniture, steel, and shoe industries in the same two countries used LATN research on commercial defence policy to successfully lobby their governments for better safeguard for local industries, like tighter antidumping policies.

This same pragmatic approach is evident in the research Mr Lengyel and the network's director, Diana Tussie, have done on export subsidies. Latin American countries have a tradition of subsidizing key industries (by direct payments to firms, loan guarantees, etc.) to promote exports, development, and employment. Competitors and their national governments argued that this practice gave Latin American companies an unfair competitive advantage. To offset this "subsidy," foreign governments frequently imposed a countervailing duty or tax on imports. This issue was finally dealt with during the Uruguay Round of trade talks when a subsidy was defined and a list of acceptable export promotion practices created.

### **Finding the margins for manoeuvre**

As a result, says Mr Lengyel, "countries now have their hands tied when it comes to export promotion policies. So what we did was see if there are any margins for manoeuvre in the agreements that were signed."

Those margins for manoeuvre would allow Latin American governments to continue to support the growth of an export oriented economy — the key to survival in an expanding global marketplace. What Mr Lengyel and Ms Tussie discovered was that measures, such as reimbursing indirect taxes on items like the energy costs incurred in creating a product, and alternative policy initiatives, such as research and development activities and training support, fall outside the World Trade Organization's (WTO) definition of "actionable" subsidies and are therefore legitimate.

LATN's success within the region has also caught the attention of organizations outside Latin America. The United Nations Conference on Trade and Development (UNCTAD) and the World Bank have now signed agreements to carry out research and training with LATN.

## **Building on common ground**

To broaden its reach still further, LATN has organized a series of smaller meetings with a stronger subregional focus. At one such meeting in Costa Rica, 40 negotiators from four Central American countries met to discuss intellectual property rights and agriculture.

"What was interesting to see," says Mr Lengyel, "was that representatives from Guatemala and El Salvador discovered they had common interests and they are now working on developing a common policy position."

This sort of coalition-building around issues of common interest is one of the approaches that LATN researchers believe Latin Americans can use to counterbalance the economic clout wielded by industrialized countries in forums like the WTO. To further prepare Latin American negotiators for these exchanges, LATN also offers training programs. The instructors are chosen for their understanding of a particular topic and for their practical experience in the trade negotiations. It is also something that clients, like Brazil's private sector National Confederation of Industry (CNI), are willing to pay for.

The challenge for LATN, says Mr Lengyel "is maintaining its momentum without sacrificing quality." He would like to see the gains made to date consolidated into a critical mass of research institutions that support the network. This means bringing in new blood, especially from the countries of Central America, and strengthening the links with international organizations, like the Organization of American States (OAS), the Inter-American Development Bank (IDB), and the World Bank.

According to Luis Abugattas, it also means placing more emphasis on developing permanent capabilities in the different countries or, as he puts it, making sure that "the results of the project survive the project."

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## **For more information:**

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## **Sidebar**

### **The Growing Demand for Advice**

Marcelo Olarreaga, an economist with the World Bank, describes the trade alliances that crisscross Latin America as a "bowl of spaghetti". The sheer number of trade agreements signed or initiated in the past decade has driven the demand for technical advice on trade and trade policy issues through the roof says Pedro Motta Veiga, a LATN member, consultant with Brazil's National Confederation of Industry and the Foundation for Foreign Trade Studies (FUNCEX), and advisor to the Brazilian government.

"At the beginning of the '90s, we had some sectoral trade negotiations and the General Agreement on Tariffs and Trade. Now, we are negotiating with MERCOSUR (the customs union of Argentina, Brazil, Paraguay, and Uruguay) and the European Union, and there is talk of a Free Trade Area of the Americas. Domestic issues are now part of the multilateral process. We now have a broad agenda and there are many more players, such as the Ministry of Foreign Affairs, three or four other ministries, business associations, and trade unions. There is a real demand for advice on technical issues such as market access and rules of origin."

But LATN, he believes, is doing more than just meeting the demand.

"The policy briefs they produce are useful for the private sector and government. My own experience confirms this," he says. "But beyond technical advice, I think LATN is also good at anticipating new issues and discussions like trade, investment, and macroeconomics."